

SECRET

MR. McMAHON.

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 28th November 1979

The better industrial news may have helped sterling to rise 0.3 in effective terms to 69.3 despite a large commercial selling order. The dollar steadied after a further fall in interest rates had given it an uneasy start. Gold rose sharply.

Having closed lower in New York at 2.1590, sterling opened at 2.1632 in London and, after an early mark-down to 2.1590, strengthened on continental demand to 2.17 by mid-morning. Another sharp fall in euro-dollar rates may have helped. A large commercial seller then appeared, but his offering was readily absorbed around the 2.16½ level. Modest buying interest returned after lunch, and sterling advanced over the afternoon to 2.1680 at the official close and subsequently to 2.1710 in late trading. After the early dip, euro-dollar rates recovered to around yesterday evening's level after allowance for technical factors. The cost of cover was little changed at 2 7/8%, leaving the covered differential in sterling's favour at 3/16%.

The pound gained against the mark (3.78%) and the French franc (8.89%), but yielded ground in Switzerland (3.55%). After an uneasy start - probably occasioned by the early fall in euro-dollar rates - the dollar steadied and indeed managed gains over the day in some centres. The mark closed a little weaker at 1.7475, the Bundesbank having bought \$24 mn. The French franc eased to 4.1050, but remained top of the EMS at 1½% above the Belgian franc (28.47). The Belgians sold \$20 mn.-worth of French currency. The lira slipped to 820.75. In an effort to hold the guilder, the Dutch raised discount and Lombard rates by 1½ but gave no direct support in the market. The Danes, on the other hand, sold \$44 mn. and a few marks. The punt closed at 2.1110, a 2½% discount on sterling. Outside the snake, the Swiss franc received another \$57 mn. of support, entirely in the form of forward sales of marks. It closed rather better against the dollar, at 1.6417, and improved to below SF 0.94 against the mark. Yesterday's measures did the yen no good. The Bank of Japan sold a massive \$515 mn. in Tokyo, before a close of 249.70; the yen closed in London at 249.15.

The gold market flared up again after a comparatively quiet period, some short-covering in the silver market seemingly providing the spark. Fixings were at \$405.35 and \$411.20.

Operations:	Market	- \$1 mn.
	Sundries	+ 4
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		+ \$3 mn.
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